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Cafta Is the American Way
By Henry M. Paulson, Jr.

At the turn of the 19th century, America underwent economic transformation and social upheaval unlike any in its history. The American way of life, rooted in the agrarian experience, was giving way to industrialization. From 1860-1910, the population of urban America increased sevenfold. The growth in industry and labor coupled with the influx of millions of immigrants would create both opportunity and hardship. Life on the family farm became much more difficult. Falling prices and diminished supplies of credit prompted farmers to ask for protections and reforms. Protests were commonplace. Yet during this time, the national wealth doubled.

We can look back and describe these developments as a period of growing pains in the life of a nation. But for the farmers and workers of the time, it was full of uncertainty and sacrifice. Change is frequently a messy, difficult and tense process. But it is also a natural and inevitable one as economies grow and become more sophisticated. For the U.S., the expansion in global trade and investment has translated into clear benefits. Since 1970, more than $4,300 in additional annual income per capita has been created because of increased trade, according to a study from the Institute of International Economics.

Today's global economy is in the midst of a period of even more intense growing pains. The emergence of new technologies, more efficient global capital flows and production, distribution and servicing networks are converging to create new levels of competition and challenge our traditional notions of comparative advantage.

As Congress considers the Central American Free Trade Agreement, and as we move into a critical stage of global trade talks, the U.S. will be presented with a fundamental question: Will it continue to lead and help pave the way through open markets to create new jobs and growth? The answer is not all together clear. Cafta, which would create the second-largest U.S. export market in Latin America, is struggling to gain enough support. Concerns about labor-rights protections and sugar imports threaten to kill an agreement that actually opens up Central America's markets to U.S. goods, which are subject to high tariffs. America's markets already are predominantly open to goods from these countries.

Cafta would give U.S. producers, particularly in textiles and agriculture, an equal footing to sell their goods. Central America and the Dominican Republic represent the second largest market for U.S. textiles and yarn. Cafta would preserve and increase this market by granting duty-free status if regional producers use U.S. fabrics. This would support U.S. jobs and help Central America compete with Asia, where U.S. materials account for less than 1% of clothes made. Failure to pass Cafta would not only hurt U.S. efforts to sell more of its goods to Central America and the Dominican Republic; it would represent a setback to U.S. trade policy and a rejection of a fundamental reason for U.S. growth.

Six months from now, trade ministers from around the world will convene in Hong Kong to try to agree to a framework for a global trade agreement. The outcome is by no means assured, and talks over trade in services -- representing over two-thirds of our economy -- are in particular peril. What chance will we have to rescue that agreement and what message will we send to the world if a regional trade agreement that included labor enforcement measures, safeguards to prevent import surges in textiles and clear economic benefits to U.S. and Central American workers couldn't attract enough support in Congress?

Our economy is irreversibly affected by the health of the world's economy. It is in our interest to push for open markets that have the power to create new demand from consumers in emerging economies. The Doha Development Round presents a tremendous opportunity to benefit billions of people in developing countries. By opening their financial services markets alone, developing countries could benefit from an income gain of close to $300 billion by the year 2015 -- an amount equivalent to an extra 2% of GDP. Over time, increasing foreign direct investment and access to capital will increase incomes and create new consumers for U.S. goods and services.

Americans have always looked confidently to the future. Our economy and its growth have reflected that dynamism. That is not to suggest that economic adjustments don't adversely affect some workers and industries. They do, and we have to be more creative in how we deal with those dislocations. But change creates opportunities. Embracing it is necessary if we are going to stay competitive, grow our economy and create new jobs in the 21st century.

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